

Canada Seeks Exemption for Financial Sector in EU Trade Talks-Sources

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Canadian negotiators are pushing for the financial sector to be broadly exempted from commitments in a trade pact they are hammering out with the European Union, one of the key sticking points in the talks, according to people familiar with the matter.

The financial-sector exemptions are among half a dozen outstanding issues that negotiators on both sides are grappling with in Brussels this week, according to these people, in the hopes of reaching agreement on what would be Canada's most important trade pact since the North American Free Trade Agreement in 1994.

A meeting earlier this month between Canada's Trade Minister Ed Fast and EU Trade Commissioner Karel De Gucht in Ottawa failed to cinch the deal. The two sides have been negotiating the pact for more than three years.

Canada is seeking a "prudential carve-out," these people said. Essentially, that would entail exemptions from many typical reciprocal trade obligations in such treaties related to the financial-services sector.

Specifically, the exemption would bar private investors or

financial institutions from being able to take the Canadian government to arbitration or seek other legal remedies from the government related to alleged violations of trade obligations.

For instance, if a French bank believed it was being treated unfairly by the Canadian government because of financial-sector legislation, it would need to take the dispute first to the French government, which could then take up the matter with the Canadian government. The bank would be barred from pursuing legal action directly against the Canadian government.

Canada enjoys similar carve outs for the financial sector in Nafta. The EU has agreed to such a carve-out but the two sides disagree on the scope.

Canada wants it to be broad, covering regulatory measures aimed at protecting individual banks and the broader financial system. The rationale is that a broad exemption would give Canada “as much policy flexibility as possible” for a sector that is “fundamentally important to the economy,” one person familiar with the matter said.

The EU, meanwhile, has struggled to find a dispute settlement mechanism that would be acceptable to all its member states, these people said.

A spokesman for Mr. Fast didn't directly comment on the financial sector exemptions, saying only that “the strength of Canada's financial institutions throughout the most recent global economic crisis reflects the strength and soundness of Canada's regulatory framework.”

Mr. Fast's spokesman said negotiators “have made progress in several of the areas that remain outstanding” but “further important work remains to be done.” Canada and the EU “share the desire to conclude these negotiations as soon as

possible,” he said.

A spokesman for Mr. De Gucht said “there are still a number of issues which need to be bridged,” but declined to be more specific.

On the European side, negotiators are asking to be excluded from the so-called net-benefit test for takeovers under the Investment Canada Act. Ottawa uses this test as a gauge to approve all big foreign deals, but the EU is pressing for exemption. U.S. companies aren’t exempted under Nafta.

Canada is also demanding greater access to the EU beef and pork markets. In return, Canada is being asked to give the EU an expanded quota for dairy products, particularly for cheese, people familiar with the matter said.